

Message Text

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ACTION EB-08

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FM AMEMBASSY KABUL

TO SECSTATE WASHDC 1103

UNCLAS KABUL 0560

FOR BLANEY, EB/IFD/ODF

E.O. 11652: N/A

TAGS: EFIN, EAID, OREP

REF: STATE 4496

1. AS REQUESTED BY SENATOR GRAVEL IN HIS COVERING LETTER TO THE AMBASSADOR, THE MISSION (INCLUDING USAID) HAS REVIEWED THE GRAVEL PAPER. AN INTERIM REPLY WAS SENT TO THE SENATOR ACKNOWLEDGING RECEIPT OF THE PAPER, BUT THIS MESSAGE CONSTITUTES OUR SUBSTANTIVE RESPONSE FOR INCLUSION IN DEPARTMENT'S SUMMARY REPORT ON THE PAPER -- AS SUGGESTED REFTEL.

2. WE FOUND THE PAPER TO BE AN IMAGINATIVE, PROVOCATIVE PROPOSAL WORTHY OF SERIOUS CONSIDERATION. HOWEVER, IT RAISES TWO BASIC QUESTIONS WHICH WE IN THE FIELD ARE INCAPABLE OF ANSWERING (A) WHAT WOULD BE THE MAGNITUDE OF THE DIVERSION FROM GENERAL TAX REVENUES CAUSED BY THE DEVELOPMENT TAX CREDIT ACCORDED TO MNC'S, AND (B) PRESUMING THAT THE SHORT FALL IN GENERAL REVENUE WOULD HAVE TO BE MADE UP BY ADDITIONAL TAXES, IS THE U.S. TAXPAYER -- AND THE CONGRESS -- WILLING AT THIS JUNCTURE TO PAY (OR VOTE) ADDITIONAL TAXES TO SUPPORT FOREIGN ASSISTANCE? IT APPEARS TO US HERE THAT THE ANSWERS TO THESE QUESTIONS ARE BASIC TO AN ASSESSMENT OF THE FEASIBILITY OF THE PROPOSAL. (IT MAY BE, OF COURSE, THAT NO ANSWER CAN BE OBTAINED FOR (B))

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WITHOUT TESTING THE PROPOSAL IN THE LEGISLATIVE PROCESS.)

3. SOME QUESTIONS CAN ALSO BE RAISED CONCERNING LDC PERCEPTION, AND ACCEPTANCE, OF THE PROPOSAL. FIRST, IT COULD BE INTERPRETED BY THE LDC'S AS EXPLICIT DC ACKNOWLEDGMENT OF WHAT THE LDC'S HAVE CLAIMED FOR SOME TIME: THAT THE LDC'S ARE BEING EXPLOITED BY THE BUSINESS ENTERPRISES

OF THE DC'S, I.E., THE MULTINATIONAL COMPANIES, AND THAT THIS PARTIAL RETURN OF INCOME OBTAINED IN THE LDC'S IS POSITIVE PROOF OF THIS FACT (AND DC GUILT CONCERNING IT). SECOND, MNC'S CURRENTLY TEND TO CONCENTRATE IN ONLY A FEW OF THE LDC'S, AND THIS UNEVEN PATTERN OF INVESTMENT IS LIKELY TO CONTINUE IN THE NEAR AND MEDIUM TERM. THIS COULD LEAD TO GREAT DIFFICULTY IN DISTRIBUTION OF EARMARKED FUNDS AMONG PARTICIPATING LDC'S, WITH THOSE THAT ATTRACT THE MOST MNC INVESTMENT INSISTING THAT DISTRIBUTION BE PROPORTIONAL TO MNC INCOME EARNED IN THEIR COUNTRIES, RATHER THAN UPON A POPULATION/PER CAPITA INCOME FORMULA AS SUGGESTED IN THE PAPER. THIRD, AND A COROLLARY TO THE PRECEDING, LDC'S MIGHT WELL VIEW THE WHOLE SCHEME AS A CLEVER DC GIMMICK TO MAKE THE LDC'S THEMSELVES FINANCE A SIGNIFICANT PART OF THE "EXTERNAL" ASSISTANCE WHICH THEY RECEIVE, EVEN IF SUCH AN ASSESSMENT WOULD NOT STAND UP UNDER CLOSE SCRUTINY.

4. LASTLY, THE MNC CODE OF CONDUCT, AND THE DISCRETIONARY POWER OF THE AGENCY ADMINISTERING THE SCHEME TO WITHHOLD TAX CREDITS IN CASES OF NON-ADHERENCE TO THE CODE, WOULD, TO BE SURE, BE A POWERFUL TOOL FOR CONTROLLING MNC BEHAVIOR. IT WOULD ALSO, HOWEVER, ADD AN ADDITIONAL ELEMENT OF UNCERTAINTY TO MNC INVESTMENT DECISIONS AND PROBABLY RESULT IN LESS, RATHER THAN MORE, MNC ACTIVITY IN LDC'S. IT IS ALSO LIKELY THAT EXPECTED PRE-TAX EARNINGS WOULD HAVE TO BE HIGHER AS A PRE-CONDITION TO NEW MNC ENTRY BECAUSE OF THE ADDED RISK FACTOR.

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